

Eye on 65 – Episode 1 Transcript

John Health care plans for retired public sector employees may be going away. That could be a problem not just for retirees, but for all. This doesn't have to be a foregone conclusion though. I'm John Barkett here with my co-host Marianne Steger to discuss. From Willis Towers Watson, welcome to Eye on 65, a podcast for public sector employers concerned about retiree health care.

Welcome to Eye on 65, a podcast for public employers focused on retiree health care. I'm John Barkett, the director of policy affairs at Willis Towers Watson.

Marianne And I'm Marianne Steger, the director of public sector strategy at Willis Towers Watson.

John On this inaugural episode of Eye on 65, Marianne and I will answer the question, "Why are we making this podcast?" And lay out what we'll discuss in future episodes.

Marianne But first, let's introduce ourselves to our listeners, John. I know you as the smartest guy in health care but tell us who you really are.

John Well, thank you, Marianne, for that sort of kind introduction. I am really the director of policy affairs at Willis Towers Watson. I've been in this role for about eight years. Prior to that, I worked on the Affordable Care Act. I was a staffer in the Ways and Means Committee and helped to draft the law. And then I joined the Obama administration where I helped to implement the law by writing its initial regulations. Prior to that, I was in grad school. And before that, I worked for a Medicare Advantage plan. But overall, for about the last 15 years, I've been working with employers to try to help them leverage federal and state laws as part of their health benefits strategy.

Marianne And that's what I love about you, John.

John Well, Marianne, tell us about yourself.

Marianne Well, John, I have been an advocate for public employees my whole life. I started with my career with AFSCME, the American Federation of State, County, and Municipal Employees, where I represented public employees on employee benefits and health care and pensions. And after I retired from that career, I became the health care director at the Ohio Public Employees Retirement System. I retired there but found myself working again because I'm now on this mission, John, to preserve retiree health care for public employees.

John So, Marianne, you are passionate about preserving retiree health care. I help employers leverage federal and state laws as part of their health benefits strategy. Why are we making a podcast?

Marianne Well, we're making a podcast because five years ago, John, 83 percent of state and local governments provided retiree health care. Today, it's just 68 percent. And with the way health care costs are growing, the trend is likely to continue. But if public sector employers stop providing retiree health care, they're going to lose a valuable recruitment and retention tool.

John And that's why we're doing this podcast.

Marianne Yes. To provide information on how employers can preserve retiree health care.

John So, Marianne, why are we focusing on public sector?

Marianne You know, John, in my eyes, public employees are the strongest threat in the fabric of our communities. And if you don't believe that, then you go outside and pick up roadkill. Or you take a crying child away from a domestic violence situation. Lay asphalt when the road temperature is 135 degrees. Or run into a burning building.

John But Marianne, you retired two years ago. You've been an advocate for public employees your whole career. I mean, practically since the Carter administration.

Marianne I don't know if I'm that old, John, but okay.

John Okay. Since Bush won. You retired two years ago, but you're still at it. What keeps you going?

Marianne Once I retired from OPERS, I found some pension systems and public sector employees wanting to hear about some of the good changes we made at that system. And when I got out there, John, I found a lot of these employers, state and local governments or school districts, are simply ending their health care programs for retirees. And, John, retirement without health care coverage is not very meaningful. And so, I found myself, you know, being the old union girl who was all revved up again about how we know that there are options out there that could allow a pension system or a state government to provide retiree health care in a way that doesn't break their bank but is also affordable to the retirees.

John Can we look towards the private sector for any inspiration on how to handle this problem in the public sector?

Marianne Well, John, in the private sector—only 25 percent of large employers provide retiree coverage today.

John Okay. That's a big difference than the 68 percent, 70 percent you were talking about before. Why the difference?

Marianne Yes. Well, John, you have to go back to the early 1990s when FASB, or the Financial Accounting Standing Boards, released its Statement 106.

John And what did that say?

Marianne Well, FASB 106 required employers to put on their books the liability for future employee benefits, particularly retiree health care. And when they did that, obviously, it made their books look not as good. And so, we started to see, in the private sector, employers ending their retiree health care program. That 25 percent used to be much higher. But really, the government or the Financial Accounting Standard Board statement really caused them to start getting out of the business.

John Let me get this straight. So, FASB says to private sector employers in 1990, "We need to see your long-term health care liabilities on your balance sheets."

Marianne Absolutely.

John And the public - excuse me - the private employers, they didn't like that. They didn't like the optics of it. They thought they weren't going to have as good of credit or that creditors would look at them and say, "We'll give you a loan, but it's going to have to be at a higher interest rate because we see all these future costs."

- Marianne** Well, and more importantly, shareholders didn't like the fact that their profits didn't look so good. Maybe people weren't going to buy their stock because now they had these huge liabilities that, before, were just a footnote in a report.
- John** Okay. So, I understand that something similar is happening in the public sector today. Is that right?
- Marianne** That's correct. We have GASB for the public sector, the Government Accounting Standards Board, and they recently released Statements 73 and 75 which do a similar thing. The public sector employers now have to list the future liability of their retiree health care costs on their books. And so, we're seeing the same thing happening in the public sector that happened in the '90s in the private sector.
- John** But in the public sector, there aren't shareholders necessarily who aren't going to buy your state and local government stock. But what are the implications for state and local governments?
- Marianne** Good question, John. What that means is when the state and local governments show that liability, it could impact their bond ratings. And so, everybody wants to be Triple-A, and if you have a huge liability, your bond rating might go down. Now, why is that important? Because public sector employers borrow money. They borrow money to build bridges, to build libraries, to do all kinds of things. And if their bond rating isn't as high as it used to be, they're going to pay higher interest which means they need more taxes to pay off the loans at a higher interest rate.
- John** So, Marianne, could public employers take a page out of the private sector employer playbook and stop offering retiree health benefits. I mean, what would be so wrong with that?
- Marianne** John, you bring up the great trade-off. There has been a great trade-off for public sector employees for years in this country. They don't earn as much as private sector employees. They don't have some of the flexibility that you see in the private sector: telecommuting, flexible work hours, maybe even bring your dog to work, John. But what you did have as a public sector employee is you had a decent pension and you have decent retiree health care. If those programs go away, then what we're going to see is that employers in the public sector are going to struggle with recruiting employees and retaining them. And that's going to be a problem because some of these jobs are not very desirable. I mean, do you want to be locked up with, you know, 250 inmates with one other correctional officer? I mean, that's the reality of a particular prison in Ohio. Two correctional officers to 250 inmates. And for eight hours! And you're locked in! So, these are hard jobs, and they're hard to recruit people for. This has been a really important tool, this retiree health care program.
- John** It sounds like, too, you're suggesting that maybe these are jobs that—I can think of other jobs like police and firemen, for example—where not that there aren't certain roles that folks who have been on the job for 20 or 30 years couldn't do, but that maybe there should be a way for those who are nearing retirement age to retire maybe a little bit sooner than folks in the private sector so that younger folks can come in and do these jobs that are a little bit more demanding and for the public good.
- Marianne** That's very true. You don't want a 60-year-old firefighter carrying you down a ladder out of a burning building. But more importantly, or at least as important I should say, we want people to retire so that next generation can have jobs. It's how our economy

works. And if people don't have meaningful retiree health care, they're not going to retire, and that next generation isn't going to be able to get into those jobs. And that's a problem.

John So, okay. You've convinced me. We need to preserve retiree health care in the public sector. How can we do that?

Marianne Well, John, we need to tune into the next podcast, and you'll find out.

John Okay. Well, Marianne, it's been a pleasure talking with you today.

Marianne It's been a pleasure as always talking with the smartest man in health care.

John We'll get him on the next podcast. Thank you all for joining Eye on 65. We'll see you next time.

Marianne Bye.

John Thank you for listening to Eye on 65 by Willis Towers Watson, a leading global advisory, broking, and solutions company serving thousands of employers worldwide. For more information on Willis Towers Watson Solutions to manage employee risks, optimize benefits, cultivate talent, and expand the power of capital, visit us at willistowerswatson.com. You can find more episodes of Eye on 65 on iTunes. Share with your colleagues with #EyeOn65. That's E-Y-E-O-N-6-5. Join us next time.